

2010-11 – 1st & 2nd QUARTER STATUS REPORT – Chief Operating Investment Officer (J. Guillot)

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Quantitative Performance Measures

Total Fund

Weight	Performance Measure	Incentive Schedule	2nd Quarter Status
35%	Excess return deviation in basis points relative to: Total Fund Performance Benchmark {SJ1CA1 – CPERST02}	-27 basis points = 0 +7 basis points = 1.0 +23 basis points = 1.5	+26 bps {13.96 – 13.70}

Affiliate Investment Program Performance

Weight	Performance Measure	Incentive Schedule	2nd Quarter Status
10%	Excess return in basis points relative to benchmark for Legislators, Retirement Systems Fund, Judges' Retirement System fund, CA Employers' Retiree Benefit Trust Fund, Long-term Care Fund, CalPERS Custom 457 Plan Index Performance Benchmark. {SKZRA1 – CPERAIPD}	0 basis points = 0 +10 basis points = 1 +15 basis points = 1.5	+60 bps {15.67 – 15.07}

Operational Excellence – Straight-thru Processing

Weight	Performance Measure	Incentive Schedule	2nd Quarter Status
5%	Excess performance over industry affirmation average for Domestic Equity, International Equity and Domestic Fixed Income internal transactions as measured by Omgeo Benchmarks.	90 percent = 0 93 percent = 1.0 95 percent = 1.5	97%

Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

Organizational Systems, Processes and Controls

Weight	Performance Measure
20%	<p>By June 30, 2011, drive implementation of specific INVO Roadmap and rapid results initiatives to improve organization processes and controls:</p> <ul style="list-style-type: none"> • Master Custody Evaluation and Implementation • Investment Accounting System Plan • Risk Management System Implementation • Investment Data Strategy • Contracting Process Improvements <p>Improve financial reporting/management information to enable cost reduction across INVO.</p>
1st & 2nd Quarter Status:	
<ul style="list-style-type: none"> • Master Custody RFP completed and decision finalized in December 2010. Implementation planning underway. • Risk Management System selected, contract negotiations completed, and implementation underway. • Investment data strategy and Target Operating Model completed. Implementation planning underway. • Form 700 amendment process completed. • Contract "workout" initiated. 	

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INVO Governance and Risk Management

Weight	Performance Measure
5%	By March 31, 2011, Lead, design and implement a risk framework and governance structure for the Investment Office. Improve transparency and consistency of investment decision making processes within INVO.
1st & 2nd Quarter Status: Risk governance framework finalized and Operating Committee is fully functional. Heat map completed.	

Incentive Compensation

Weight	Performance Measure
5%	By June 30, 2011, Deliver selected enhancements to INVO incentive compensation plan.
1st & 2nd Quarter Status: N/A – to be launched in early 2011.	

Investment Office Leadership and Management

Weight	Performance Measure
15%	<ul style="list-style-type: none"> Investment Office Leadership and Management – By June 30, 2011, contribute to the value creation, capacity building, and organization support for the Investment Office by executing the following: <ul style="list-style-type: none"> Drive global leadership and financial market reform to improve investment performance and enhance delivery of services. Build organizational excellence by strengthening and reinforcing a value driven culture that fosters accountability, transparency, and integrity by utilizing Senn Delaney training and communication concepts. Mentor and develop staff through regular coaching and feedback. Ensure 95% completion rate for annual performance appraisals and employee development plans. Team Participation – Cross Asset Class Collaboration – By June 30, 2011, participate in and support cross asset class initiatives, such as the Investment Office Roadmap, Investment Strategy Group, Risk Management, and Governance initiatives to improve investment performance and processes. Individual Contributions – Asset Class Priorities – By June 30, 2011, implement asset class priorities which contribute to the success of your program by adopting innovative approaches and overcoming obstacles to improve investment performance and processes. Organizational Management Practices <ul style="list-style-type: none"> <u>Maintain an average position vacancy rate of 5% or less through the fiscal year 2010-11.</u> <u>Ensure all Form 700 Statements of Economic Interest are filed by scheduled employees by the mandated due date of April 1, 2011.</u> <u>Ensure all scheduled employees complete the legally mandated AB 1234 ethics training by June 30, 2011.</u> <u>Maintain a 90% EPAD completion rate.</u> <u>Address and resolve all outstanding audit findings within 12 months of audit report.</u> <u>Dedicate 30 minutes per month for Employee Recognition during the year through fiscal year 2010-11.</u>

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1st & 2nd Quarter Status:

- Leading INVO planning and next phase INVO Roadmap development.
- Managed year-end performance review and calibration process to ensure consistency across INVO.
- 2nd phase of IPTS and cost effectiveness Rapid Results efforts completed.

Enterprise-wide Initiatives and Collaboration

Weight	Performance Measure
5%	By June 30, 2011, continue to improve collaboration between the Investment Office and other CalPERS divisions/branches, including enhancing the INVO IT Steering Committee process, jointly sponsoring the Investment Accounting project with the Fiscal Services Branch, and participating in development of the Enterprise Risk Management Framework.
1st & 2nd Quarter Status: Participating in CalPERS reorganization and enterprise risk management efforts.	